

Bachus: We Must End AIG-Style Bailouts

November 17, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement regarding the report on AIG's counterparty payments by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP):

"This report paints a devastating picture of a Federal Reserve Bank of New York (FRBNY) that was ill-prepared to deal with the problems at AIG, and failed to fight for what was in the best interest of the taxpayers.

"Even more troubling is the fact that the FRBNY, then under the leadership of Tim Geithner, failed to receive any voluntary concessions by using a strategy that was doomed to fail. What resulted was nothing more than a backdoor bailout of AIG's largest counterparties, both foreign and domestic, at the expense of taxpayers.

"While the Democrats are seeking to codify AIG-style bailouts, the SIGTARP's report confirms that Americans deserve better. That is why Republicans have proposed a solution that protects taxpayers and ends the bailouts. By directing all failed non-banks to an enhanced bankruptcy proceeding, Republicans are ensuring that taxpayers will never again be asked to pay for mistakes on Wall Street."

NOTE: Ranking Member Spencer Bachus sent this letter to Chairman Barney Frank on March 25, 2009 urging Committee hearings to examine the disparity among AIG's counterparty payments.

Bachus also questioned Secretary Tim Geithner during a Committee hearing on March 24, 2009 on whether the FRBNY attempted to obtain "haircuts" from counterparties. During the exchange Geithner informs Bachus that the FRBNY explored "every possible means to reduce the drain on their [AIG's] resources." However, the SIGTARP audit report concludes that the New York Fed's policy decisions "came with a cost - they led directly to a negotiating strategy with the counterparties that even then-FRBNY President Geithner acknowledged had little likelihood of success."

BACHUS: I'm talking about the foreign banks, Goldman Sachs. They were paid 100 cents on the dollar, were they not?

GEITHNER: Again, that was the purpose and result of

BACHUS: Well, I'm talking about -- I'm just saying, they were paid 100 percent of what they were owed. Is that.

GEITHNER: AIG was able to meet its commitments, and met its commitments.

BACHUS: At 100 percent.

GEITHNER: It fully met its obligations, yes.

BACHUS: Sure. Fully met its obligations.

GEITHNER: Yes.

BACHUS: Well, my question to you -- and I'm not -- was there any discussion over a haircut or a 95 percent -- taking 95 percent or 90 percent as full payment?

GEITHNER: We explored at that time every possible means to reduce the drain on their resources.

BACHUS: Well.

GEITHNER: Including what you referred to. But again, because we have no legal mechanism in place for dealing with this, like we deal with the banks, we did not have the ability to selectively impose losses on their counterparties.

BACHUS: You were 80 percent owners.

Even though in the exchange above Secretary Geithner attempts to justify the FRBNY's actions, the SIGTARP's audit concludes that the FRBNY's weak negotiating strategy "made the possibility of obtaining concessions from those counterparties extremely remote" despite both the Federal Reserve and Treasury Department using leverage elsewhere to force some institutions to accept billions in capital injections, force Bank of America and Merrill Lynch to merge, and force the creditors of GM and Chrysler to take "substantial concessions."

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